

Tax Information

Bulletin

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California State Board of Equalization
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Common errors found in audits – unreported purchases subject to use tax

Most businesses understand when they must report and pay sales tax, but they aren't so sure what to do when it comes to use taxes. One of the most common reporting errors occurs on line 2 of the sales and use tax return "Purchases Subject to Use Tax."

■ What is "use" tax?

Use tax generally applies to the use of tangible personal property in California that has been purchased without payment of California sales tax. Use tax does not apply to property held for resale, or for property that is used only for demonstration and display while being held for sale in the regular course of business. Use tax is calculated on the item's purchase price. The rate is the same as your sales tax rate.

■ When do I owe use tax?

Typically, you owe use tax on items

- Purchased for use in this state from an out-of-state retailer who does not collect California tax, or
- Purchased for resale, but withdrawn from inventory and used for another purpose.

Examples

- You buy office equipment over the Internet from an out-of-state vendor who does not collect California tax. Since you will use the equipment in your business in California, you owe use tax on the purchase price.
- You operate a convenience store and purchase soda for resale without payment of California sales tax. However, instead of selling the soda, you take five cases home for a birthday party. Since you consumed the soda instead of reselling it, you owe California use tax on the cost of the soda. Please note, if you took home *food items* for the party (for example, hot dogs, buns and chips), you would not owe use tax because you are consuming food products that were exempt from tax when you purchased them.

For those items on which you owe use tax, you should report your use tax liability by reporting the purchase price on line 2 of your tax return "Purchases Subject to Use Tax." *Note:* There are some in-

stances where donations to certain charitable organizations are not subject to tax. For more information on these types of donations, contact our Information Center.

■ What if I already paid use tax to my out-of-state supplier?

Some out-of-state retailers are required to, or have voluntarily registered to collect and report California use tax from their customers. You do not need to report the purchase on line 2 of your re-

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LCD and Plasma TVs added to Electronic Waste Recycling Fee Program

LCD and Plasma televisions have been added to the Electronic Waste Recycling Fee Program's list of common hazardous wastes and will be subject to the program's recycling fee beginning July 1, 2005. The two items were added by the Department of Toxic Substances Control, which regulates the program.

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Interpreter services offered in nearly 50 languages

As part of its commitment to serve all Californians, the Board provides interpreter services in its office and at Board hearings. The agency's Equal Employment Opportunity Office maintains a list of bilingual and multilingual employees, who together speak 47 different languages and dialects, including American Sign Language.

EFT – A quick and simple way to pay!

The Board of Equalization is pleased to provide a quick and simple alternative for making your sales and use tax payments. Electronic Funds Transfer (EFT) payments are made by authorizing a financial institution to transfer money from your bank account to the State's bank account electronically. No more writing paper checks! Payments can be made over the Internet, by telephone, with PC software, or initiated through your own bank.

All sales and use taxpayers are eligible to make payments by EFT; however, only those taxpayers with an average monthly tax liability of \$20,000 or more are *required* to pay by EFT. Making a payment by EFT offers you the convenience of warehousing the payment (Automated Clearing House debit payments only). Warehousing allows you to select the date your payment, up to sixty days in advance, will transfer out of your account. Another EFT payment advantage is that if you file your taxes on a prepayment basis (that is, two monthly prepayment forms and one quarterly return), you will no longer receive or need to file the prepayment

forms, just simply make your payment through EFT.

If you are not currently registered to make EFT payments and would like to do so, visit our website at www.boe.ca.gov/electsrv/eftsrvcont.htm for more information and to download an Authorization Agreement for Electronic Funds Transfer (EFT) form (BOE-555-EFT). You may also download publication 80 - *Electronic Fund Transfer Information Guide* at www.boe.ca.gov/pdf/pub80.pdf. Or you may contact the EFT Helpline by calling (916) 327-4229. Staff are available to assist you Monday through Friday, 7:30 a.m. to 4:30 p.m. Pacific Time.

Annual Taxpayers' Bill of Rights hearings

Do you have suggestions for improving our services? Do you want us to look more closely at a tax or fee issue? If you do, come share your ideas and concerns with the elected Members of the Board at the annual Taxpayers' Bill of Rights hearings. You can present your proposal orally or in writing. The annual business and property taxes hearings for 2005 will be held in Culver City on September 21 at 1:30 p.m. and in Sacramento on October 25 at 1:30 p.m. Although you are not required to make advance arrangements to speak, it would help us to prepare if you contact the Taxpayers' Rights Advocate Office at 888-324-2798 beforehand to let us know your topic. If your proposal is complex or extensive, we encourage you to submit it in advance and then summarize it in your oral presentation. For more details, please call the Advocate's Office or visit us online at www.boe.ca.gov/tra/tra.htm.

Eureka Branch Office closing

Senator Chesbro offers space for taxpayer service

The Eureka Branch Office will close June 30, 2005. If your account is maintained at the Eureka office, it will be transferred to our Santa Rosa District Office located at 50 D Street, Room 230, Santa Rosa, CA 95404-4791. Phone is 707-576-2101.

After much consideration, the decision to close the Eureka office was part of our efforts to address state budget constraints while maintaining quality taxpayer service. We anticipate the closure's effect to be minimal.

The Santa Rosa Office provides the same full range of services received from the Eureka Office. The Board also offers service through www.boe.ca.gov and a toll free line at 800-400-7115.

State Senator Wesley Chesbro (D-Arcata) has offered space in his office at 710 E Street, Suite 150, in Eureka, for Board staff to personally assist taxpayers. Office hours will be posted on our website, and can be obtained by calling our toll free number or the Santa Rosa Office.

How safe is the personal information you provide to the Board?

When applying for a seller's permit, you are required to provide certain information that allows for the administration of the state's Sales and Use Tax Law. This includes personal information such as your social security and driver license numbers. With the proliferation of identity theft, it is important you know that any information provided to the Board and any information we may obtain regarding you or your business is safe.



State laws that protect your privacy cover any records that you provide to us. There are times when information can be shared with other government agencies and with companies authorized to represent local governments. The privacy statutes also bind those agencies or companies.

While most of the information you provide us is confidential, some is subject to public disclosure, such as the information printed on your permit, account start and closeout dates, and names of business owners or partners. Further, when you sell a business, we can give the buyer or other involved parties information regarding any outstanding tax liability. Finally, with your permission, we can release information regarding your account to anyone that you designate. Of course, you have the right to review your records.

If you would like further information on this subject, you may call our Disclosure Officer located in Sacramento at 916-445-2918, or you may request our publication 58-A, *How to Inspect and Correct Your Records*.

Underground Storage Tank Maintenance Fee increased Jan. 1, 2005

As of January 1, 2005, the Underground Storage Tank Maintenance Fee increased to thirteen mills (\$0.013) per gallon of petroleum products placed in underground storage tanks. The fee will increase one mill (\$0.001) from thirteen mills (\$0.013) to fourteen mills (\$0.014) on and after January 1, 2006. For more information on this fee visit our website at www.boe.ca.gov and read publication 88, *Underground Storage Tank Fee*.

LCD and Plasma TVs

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Retailers who sell or lease certain electronic equipment must collect and remit the fee to the Board. Currently the fee applies to specific new or refurbished televisions, computer monitors, laptop computers, and other video display devices. The fee runs from \$6 to \$10 depending on the size of the screen, measured diagonally.

If other devices are added to the list of common hazardous wastes at any time during 2005, those

devices will become subject to the fee beginning July 1, 2006.

For additional information, please visit www.boe.ca.gov/sptaxprog/ewaste.htm or contact us at 916-341-6906, or by FAX at 916-341-6951.

For a list of electronic devices covered by the program, please visit www.dtsc.ca.gov/LawsRegulationsPolicies/LCD/OEARA_REG_LCD_Emergency_Text_Final.pdf. The Board is not responsible for the contents of other agencies' websites. This hyperlink is provided for your information and convenience only.

Our Basic Sales and Use Tax Class Now Available Online

To help new and existing businesses with sales tax questions and return preparation, many of our district offices hold free Basic Sales and Use Tax Seminars and Tax Return Preparation Classes. Some offices even offer Spanish sessions. To find out about upcoming classes in your area, please visit our website at www.boe.ca.gov/sutax/tpsched.htm. You can also call our Information Center for information.

As an alternative or supplement to attending these instructor led classes, we invite you to try our Basic Sales and Use Tax Online Tutorial. It provides the information in a self-paced online environment. You can access the tutorial at www.boe.ca.gov/sutax/basic_SUT_tutorial.pdf.

Small Business Fairs

We invite current and potential business owners to attend one of our upcoming Small Business Fairs, which offer informative workshops on federal, state, and local taxes as well as other government requirements. The fairs are free, but reservations are recommended.

Upcoming Fairs

Los Angeles, July 15, 2005

Loyola Marymount University

For more information, contact our Culver City Office 310-342-1055

Baldwin Park, September 9, 2005

Courtyard by Marriott Baldwin Park

For more information, contact our West Covina Office 626-480-8226

Milpitas, October 28, 2005

Crowne Plaza Hotel

For more information, contact our San Jose Office 408-277-8203

To check for other upcoming fairs, please visit our website at www.boe.ca.gov/sutax/tpsched.htm

**Common errors found in audits***Continued from page 1*

turn if you already paid the correct amount of California tax to your out-of-state supplier and that supplier is registered to collect the tax. In order to relieve your liability for the use tax, you must obtain and keep a receipt or invoice from the supplier that includes: the retailer's name, address, and California seller's permit number or use tax registration number (certificate of registration—use tax); your (the purchaser's) name and address; the date of sale; a description of the property sold; the sale amount and the amount of the tax paid. For more information on use tax, please see our publications 110, *California Use Tax Basics* and 112, *Purchases from Out-of-State Vendors*.

Tax rates vary statewide: What rate should you report?

California's statewide sales and use tax rate is 7.25 percent. However, the rate is higher in locations where voters have approved additional district taxes. Most districts cover an entire county whereas some districts are limited to a single city.

Examples:

- In San Bernardino County the tax rate is 7.75 percent. This rate reflects the statewide base rate of 7.25 percent plus 0.50 percent for the San Bernardino County Transportation Authority. The rate applies countywide.
- In the city of Placerville, located in El Dorado County, the tax rate is 7.50 percent. This rate reflects the 7.25 percent statewide base rate plus 0.25 percent for a public safety district. The tax rate in areas of El Dorado County outside

the city of Placerville is 7.25 percent.

■ Who is required to collect district taxes?

As a seller, you must report and pay the district sales tax or use tax on your taxable sales and leases if you

- Are a retailer in the district and your merchandise is sold and delivered in the district.
- Engage in business in a district and sell merchandise for use in the district. You are considered engaged in business in a district if you (1) have any type of office, sales room, warehouse, or other place of business in the district, even if it is used temporarily, or (2) deliver into the city using your own vehicles, or (3) have any kind of representative operating in the district for

the purpose of taking orders, delivering, installing, selling, or assembling.

- Lease tangible personal property that is used in the district.
- Are a dealer of vehicles, undocumented vessels, or aircraft that will be registered in the district.

There are some differences between the rules that apply to the payment of taxes in special districts and the payment of sales and use taxes in general. See our publication 44, *Tax Tips for District Taxes*, for more information. To find the tax rate for a particular city or county, go online to www.boe.ca.gov/sutax/pam71.htm or call our Information Center. If your sales or leases are not subject to a special district tax, you should report tax at the current statewide tax rate of 7.25 percent.

New or revised reference material

Special Taxes

- 94 Occupational Lead Poisoning Prevention Fee (1-05)

Sales and Use Tax

- 71 California City and County Sales and Use Tax Rates (4-05)
72 Summary of Constitutional and Statutory Authorities (1-05)
112 Purchases from Out-of-State Vendors (1-05)

Sales and Use Tax Regulations Revisions

- 1588 Seeds, Plants and Fertilizer (effective January 13, 2005)
1589 Containers and Labels (effective January 13, 2005)

Translated Publications

- Cigarette Tax Stamp Flyers, Spanish, Vietnamese, Chinese, and Korean.
Publication 71 California City and County Sales and Use Tax Rates (1-05), Addendum, Spanish and Chinese.

For More Information

All telephone numbers are toll-free

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| Internet | www.boe.ca.gov ■ www.taxes.ca.gov |
| Information Center | 800-400-7115 ■ TDD/TTY: 800-735-2929 |
| Requests for Fax Copies | 800-400-7115 (Choose automated services) |
| Seller's Permit Verification | 888-225-5263 ■ www.boe.ca.gov |
| Taxpayers' Rights Advocate | 888-324-2798 ■ www.boe.ca.gov |
| Tax Evasion Hotline | 888-334-3300 |
| State Legislation | www.leginfo.ca.gov/bilinfo.html |